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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
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STATE FOR SCA/INS AND EEB
USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENTFELD/AADLER/CHINCKLEY
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER
EEB/CIP DAS GROSS, FSAEED, MSELINGER

E.O. 12958: N/A
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KIPR, KWMN, PHUM, SENV, ASEC, IN, EMIN

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
OCTOBER 27 TO OCTOBER 31, 2008

¶1. (U) Below is a compilation of economic highlights from Embassy
New Delhi for the week of October 27 to October 31, 2008, including
the following:

-- CHINESE SLOWDOWN HITS KARNATAKA
-- JBIC TO FUND THE WESTERN DEDICATED FREIGHT CORRIDOR

CHINESE SLOWDOWN HITS KARNATAKA

¶2. (SBU) An economic slowdown in China appears to be hitting
Karnataka's iron-ore mining operations, one of the state's key
industries, which has become used to supplying the bulk of its
production to Chinese companies. The managing director of a
northern Karnataka-based mining and steel-producing concern told
Consulate Chennai that the price for a ton of ore -- driven largely
by Chinese demand -- has fallen to USD 70 from USD 145 just before
the Olympic games in August. He also said that small mining
operations -- those that extract fewer than 100 tons per day -- were
now closing operations. He estimated that some 60 mines shuttered
their doors since early October. More prosaically, he noted that
mine owners used to living a luxurious lifestyle during boom times
have had to cut their costs, for example by traveling by car instead
of by helicopter.

¶3. (SBU) Parts of the transportation sector linked to this trade are
also feeling the pinch. A Chennai Port Trust official told us that
the number of ore carriers coming into Chennai port has "dropped
drastically" in October with many shipping lines cancelling voyages.
The mining industry relies heavily on trucks (as many as 20,000,
according to some reports) to transport ore to ports for export, and
truck owners are suffering. With demand dropping, many truckers are
unable to meet their monthly loan repayments. A top Syndicate Bank
official told us that his officers are busy rescheduling payments
for many truck owners. He noted that repossessing these vehicles is
generally unattractive because current economic conditions mean that
there are few potential buyers for repossessed vehicles.

JBIC TO FUND THE WESTERN DEDICATED FREIGHT CORRIDOR

14. (U) The Delhi-Mumbai Western Freight Corridor which will cover 1426 km and require an estimated expenditure of \$4.7 billion has been guaranteed financial assistance from the Japanese government. During Prime Minister Singh's visit to Tokyo on October 22, both governments agreed to jointly initiate the first phase of the project - the Rewari, Haryana-Vadodara, Gujarat sector. The Japan Bank of International Cooperation (JBIC) will provide funding through a low-interest official development assistance (ODA) Loan for engineering services. The Japanese ODA lending defies an OECD determination that the freight corridor project should not be eligible for concessional lending terms. For the first phase, the loan is estimated to be approximately 450 billion yen (USD 4.6 billion), based on the provisional project design. In a joint statement, both countries pledged their commitment to work together on the entire Western corridor project, under the Special Economic Partnership Initiative (SEPI). SEPI is an initiative by India and Japan to support early completion of the dedicated freight corridor (DFC) and support promotion of the Delhi-Mumbai Industrial Corridor.

15. (SBU) Worldwide, India is the largest beneficiary of JBIC funding (6.5% share or \$13.2 billion), with an overall loan portfolio of \$184.4 billion. JBIC agreed to financially support the DFC project after the Indian Railways relented and decided to electrify the western freight corridor. Electrification of both the Eastern and Western freight corridors limits the ability of U.S. business to participate as they are not competitive in the electric locomotive/rolling stock market. To begin the first phase of this project, the Ministry of Indian Railways has issued a notification for acquisition of land from 59 villages in the western state of

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Gujarat. Land acquisition for development remains a volatile issue in India. Farmers in Bhrauch and Vadodara have opposed the move and are demanding higher compensation for their land.

16. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

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